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Overview of the economic and social conditions in Africa 2007

Summary

This report reviews the economic and social conditions in Africa for 2006 and presents an outlook for medium-term developments and prospects for growth in 2007. Overall, the report shows that economic growth has continued to improve in 2006, reaching 5.7 per cent compared to 5.3 per cent in 2005. It argues that those positive results could be attributed to good macroeconomic management, strong demand for and higher prices of primary commodities, debt relief, increased external capital flows and an improved political climate. However, a key message of the report is that improvements in social development lag significantly behind improvements in economic performance. The report concludes with a set of policy recommendations aimed at accelerating and sustaining growth in African countries as a means of reducing poverty and achieving the Millennium Development Goals.

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I. The global economy

1. Growth in the world economy remains moderate although it improved slightly in 2006 relative to 2005 (from 3.5 per cent to 3.8 per cent). The growth was driven by the strong performance of the Asian economies, which continue to post growth rates above 8 per cent. In contrast, growth in advanced economies remains modest and is yet to reach the pre-2001 level. Key constraints to growth include massive global macroeconomic imbalances along with tighter macroeconomic stances in advanced economies, which prevent demand-led recovery. In addition, high oil prices have undermined growth in both advanced and developing countries through high production costs.

2. Increasing current account, government, and private sector deficits in industrial countries, especially in the United States of America, threaten domestic economic recovery as well as global financial stability. Widening deficits in the United States have been financed mainly by savings in the developing world, especially in Asia and Latin America. Correction of these global macroeconomic imbalances requires concerted and coordinated efforts in industrialized economies and the developing world. The adjustment mechanism will involve an increase in savings in the United States and an increase in investment in other countries, as well as depreciation of the United States dollar, which will allow adjustment of the United States trade deficit and reduce incentives for developing countries to accumulate reserves.

3. Positive global economic developments in 2006 that are likely to sustain growth in Africa include high export commodity prices due to high demand, especially from Asia, delivery of promised aid and debt relief, rising inflows of foreign direct investment (FDI) with an increasing share coming from China and India, and higher inflows of worker remittances. These developments need to be supported, however, by adequate domestic policies in order to maximize their impact on growth in Africa.

4. Overall, the medium-term outlook for the world economy remains upbeat and a soft landing for the United States seems likely. In addition, global imbalances have started to stabilize, although they remain large. For African countries, however, there remain some risks arising from competition from Asia and the weakening of housing markets in advanced economies, which could reduce demand and weaken commodity prices. Economic diversification, increased domestic demand and regional integration are crucial in order for African countries to increase their exports, reduce vulnerability to external shocks and ultimately sustain the recent growth recovery.

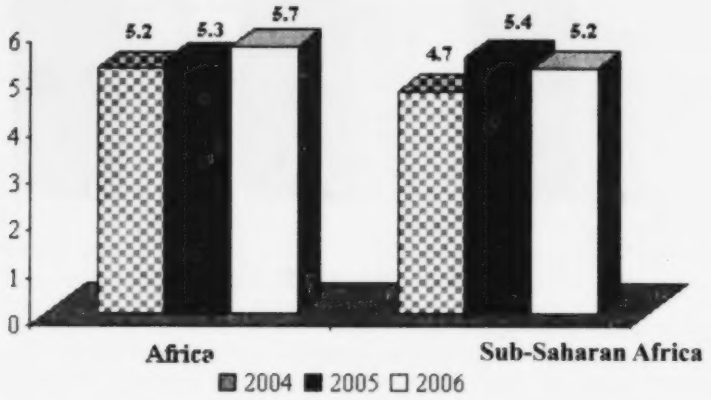
II. Overall growth performance in Africa

A. African economies continue to sustain the growth momentum

5. African economies continued to sustain the growth momentum of previous years, recording an overall real growth rate of gross domestic product (GDP) of 5.7 per cent in 2006, compared to 5.3 per cent in 2005 and 5.2 per cent in 2004 (figure 1). Twenty-eight countries recorded improvements in growth in 2006 relative to 2005. Only one country, Zimbabwe, recorded a negative growth rate in 2006. Africa's growth performance in 2006, as in previous years, was underpinned by

improvement in macroeconomic management in many countries and strong global demand for key African export commodities, resulting in high export prices, especially for crude oil, metals and minerals.

Figure 1
Real growth rate of gross domestic product in Africa, 2004-2006 (percentage)



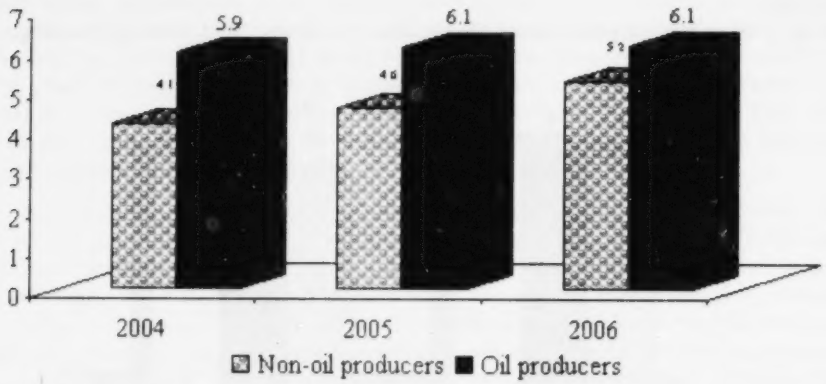
Source: Economist Intelligence Unit, 2007.

6. The growth impact of commodity prices was particularly strong for oil-exporting countries. These countries as a group contributed 57.5 per cent of the continent's 5.7 per cent growth rate in 2006, compared to 53.4 per cent in 2005. The recent increase in oil prices has increased the dominance of oil producers in the continent's overall growth, overshadowing the improvements observed among non-oil countries (from 4.6 per cent in 2005 to 5.2 per cent in 2006) (figure 2). Efficient management of oil revenues and economic diversification are essential in order for oil-exporting African economies to reduce vulnerability to oil price shocks, ensure that gains from oil revenue are broadly shared and achieve sustainable growth.

7. In addition to increased aid flows and debt reduction, improved economic management and increases in non-oil commodity prices have more than offset the negative impact of high oil prices on the real GDP of African oil importers. On average, these countries maintained a positive and rising real GDP growth rate during 2004-2006. The growth impact of higher oil prices was particularly moderate for non-oil non-mineral-rich economies, where growth performance improved from 4.1 per cent in 2005 to 5.8 per cent in 2006 (figure 3), thanks to debt relief and increased aid flows, as well as improved agricultural performance and high agricultural commodity prices. The growth rate in non-oil mineral-rich African countries was almost unchanged in 2006 relative to 2005, as the effects of rising oil prices dampened the gains from higher prices of minerals.[1]

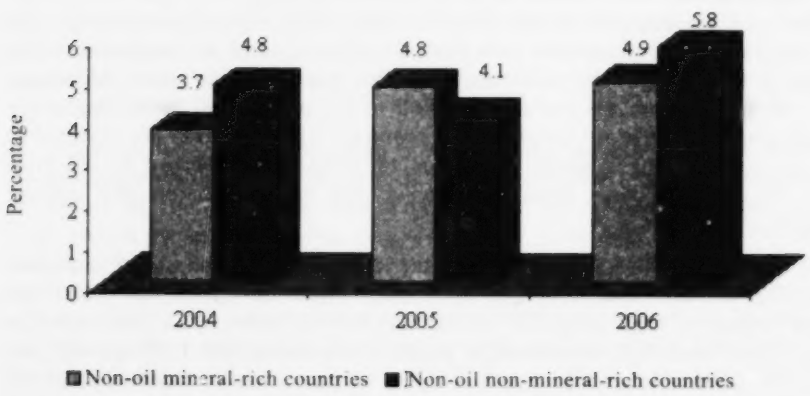
[1] Oil-importing African countries need to reduce their dependence on oil by making use of alternative sources of energy, especially hydropower, and by adopting strategies to rationalize the use of oil and improve the efficiency of their energy systems. This is crucial not only because of high oil prices, but also because of the relatively high-energy intensity of GDP in these countries (Energy Sector Management Assistance Program, 2005).

Figure 2
Real growth gross domestic product in African oil versus non-oil economies, 2004-2006 (percentage)



Source: Economist Intelligence Unit, 2007.

Figure 3
Growth in mineral-rich countries versus non-oil non-mineral-rich countries (percentage)



Source: Economist Intelligence Unit, 2007.

B. Oil-importing African countries are affected by high oil prices

8. Oil-importing countries will suffer severe adverse effects if higher oil prices persist in the medium-term (see box). To minimize the effects of high oil prices on inflation and macroeconomic stability in general, African Governments need to pursue prudent policies, especially by avoiding monetization of deficits. In the meantime, the international donor community and international financial institutions should provide special support to oil-importing low-income African countries in

order to mitigate the impact of higher oil prices. In particular, debt relief and additional non-debt-generating external financing of fiscal deficits are critically needed to assist African oil-importing countries to sustain economic growth and achieve the Millennium Development Goals.

Box:

Sustained higher oil prices will slow down growth and weaken progress towards the Millennium Development Goals in low-income oil-importing African countries

Oil-importing African countries are characterized by high oil-intensity of primary energy sources and inelastic oil demand. Higher oil prices raise production costs, leading to lower output as well as tighter financial constraints. Governments are forced to decrease expenditures on infrastructure and social services in order to finance the higher oil bill. Moreover, higher oil prices fuel domestic inflation, increase fiscal deficits and worsen the balance of payments position as well as the terms of trade. This can undermine economic performance both directly and indirectly through increased uncertainty.

Although oil-importing African countries have recorded positive overall GDP growth in the past few years, they are experiencing mounting internal and external imbalances. Strong commodity demand, good macroeconomic management, better agricultural performance, improved political governance in many countries and increased aid flows and debt relief are the key factors that have helped them to maintain overall growth momentum. However, as a result of the recent hike in oil prices, the share of fuel imports in merchandise imports of the oil-importing African countries have risen significantly, leading to notable increases in the current account deficit. Moreover, oil-importing countries have sustained large terms of trade losses.

Mounting budget deficits and inflationary pressures in oil-importing African countries will disproportionately affect the poor because of lower employment prospects and lack of safety nets. Budget constraints may also force Governments to introduce user fees for social services and to raise prices of public utilities such as electricity and water.

The critical challenge for oil-importing African countries is to reduce their dependence on oil by promoting alternative sources of energy. It is particularly critical for these Governments to strengthen growth policies, including industrial strategies that promote diversification of production and exports. The international donor community and international financial institutions should provide special support to oil-importing African countries in order to mitigate the impact of higher oil prices. In particular, debt relief and additional non-debt-generating external financing are critical to allow these countries to sustain economic growth and accelerate progress towards the Millennium Development Goals.

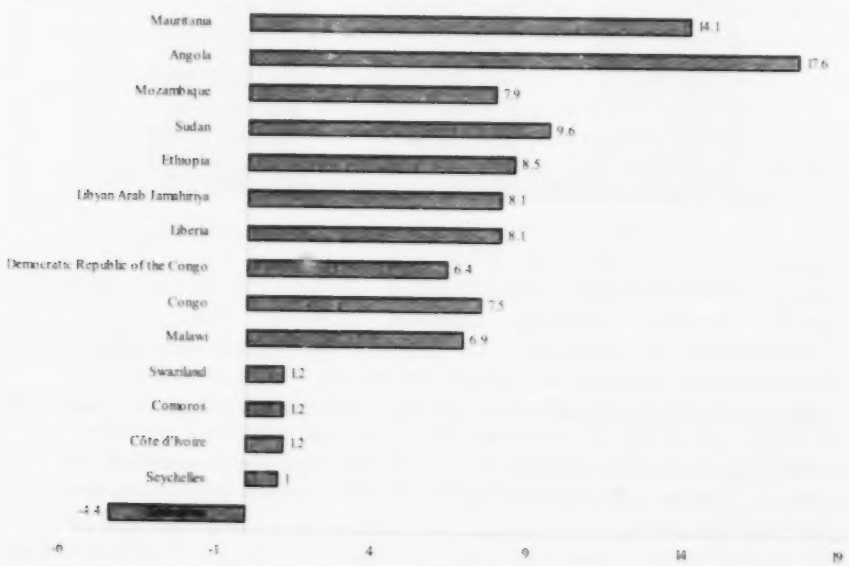
Source: Economic Commission for Africa, 2006a.

1. Uneven growth with stagnation at the bottom of the scale

9. The overall strong growth performance conceals wide disparities across economies continent-wide, characterized by stagnation at the bottom of the scale. Only three countries (Angola, Mozambique and the Sudan) of the top 10 performers in 2006 were among the top 10 performers on the basis of average annual growth rates during 1998-2005 (ECA, 2006b) and half of the top 10 performers are oil producers (Angola, the Libyan Arab Jamahiriya, Mauritania, the Congo and the Sudan). Of the remaining five top performers, two are mineral-rich countries (the Democratic Republic of the Congo and Mozambique) and one (Liberia) is a post-conflict country (figure 4). High oil and mineral prices were the main growth drivers for the best performing countries.

10. Five countries (the Comoros, Côte d'Ivoire, Seychelles, Swaziland and Zimbabwe) have the lowest growth rates over 1998-2006. Swaziland's growth performance has weakened over the last five years owing to increasing competition and falling prices in the textile export market and the reduced sugar price in the European Union (EU) market. The Comoros, which is heavily dependent on agriculture, continued to experience low growth due to low revenue from vanilla exports and a decline in the tourism sector, while political conflict and insecurity continued to deter investment and undermine economic performance in Côte d'Ivoire. Economic performance in Zimbabwe remained negative in the last eight years owing mainly to political difficulties exacerbated by recurrent droughts. Foreign exchange constraints and the recent rises in oil prices adversely affected investment and capacity utilization in Seychelles, also leading to nearly complete economic stagnation in the last eight years.

Figure 4
Annual growth of the top 10 and bottom 5 performers in Africa in 2006 (percentage)



Source: Economist Intelligence Unit, 2007.

2. Subregional growth performance varies substantially

11. Growth performance exhibits substantial disparities across the five subregions.[2] North Africa recorded the highest acceleration in GDP growth, from 5.2 per cent in 2005 to 6.6 per cent in 2006, followed by Southern Africa, from 5.6 to 5.9 per cent. There was a notable deceleration in growth momentum in West Africa, from 5.4 per cent in 2005 to 4.2 per cent in 2006. Heavy dependence on primary commodities remains a common feature of production, exports and growth in all subregions. This exposes the continent to external shocks and makes economic diversification a top priority for growth policies on the continent.

12. Stronger growth performance in North Africa was mainly the result of higher oil prices, especially for Algeria, the Libyan Arab Jamahiriya, Mauritania and the Sudan. Mauritania achieved the highest increase in GDP growth rate (from 5.4 per cent in 2005 to 19.4 per cent in 2006) owing to the start of commercial exploitation of crude oil in 2006. Steady growth in the secondary and tertiary sectors (especially tourism) continued to boost economic performance in North Africa. Adequate management of oil revenue is needed for the subregion to sustain the growth momentum.

13. Growth in Southern Africa improved in 2006 largely because of economic recovery in Malawi and Lesotho and sustained good performance in most other countries of the subregion. With increased public spending and high FDI flows, South Africa maintained the same growth rate of 2005 through 2006. Notwithstanding the slowdown in oil production, Angola remains the fastest growing economy in Southern Africa (17.6 per cent), followed by Mozambique (7.9 per cent), Malawi (6.9 per cent) and Zambia (6 per cent). Zimbabwe, though still on the negative side (-4.4 per cent in 2006, from –7.1 per cent in 2005), and Malawi recorded the largest improvements in growth, thanks to favourable weather conditions and commodity markets, although recovery from the 2005 drought is still incomplete. Growth in Mauritius also improved considerably, despite stiff competition from Asia in the textile market, thanks to increased investment and notable growth in the service sector. Growth in Lesotho picked up in 2006 owing to increased investment in manufacturing and mining, which has resulted in higher textile and diamond exports. Swaziland continued to record a low growth rate (1.2 per cent) owing to drought and a decline in the textile industry.

14. Growth in Central Africa was underpinned by higher oil prices. In spite of sustained increases in oil prices, Chad and Equatorial Guinea experienced the greatest decline in GDP growth in 2006, followed by the Congo, because of a slowdown in crude oil production. Oil production declined in Chad in 2006 because of technical problems. Cameroon, the Central African Republic and Sao Tome and Príncipe were the only three countries in the subregion with higher growth rates in 2006 than in 2005, thanks to the improved prices for agricultural commodities such as coffee and cocoa.

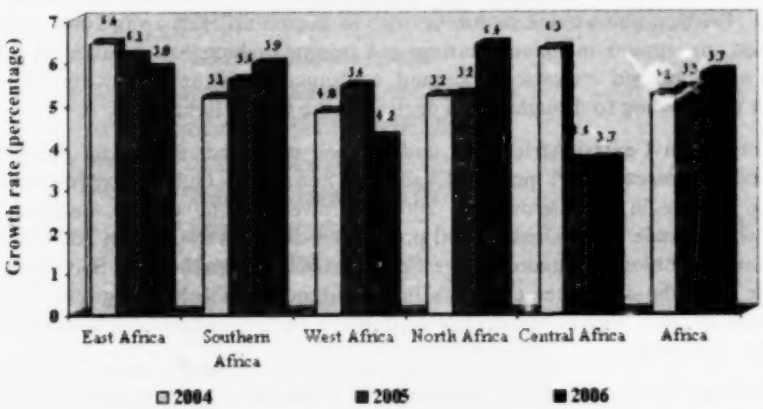
15. In East Africa, weather conditions as well as export commodity prices remained largely favourable despite sporadic drought in the Horn of Africa. East Africa was the best performing subregion in 2004 and 2005 but experienced a slight decline in growth rate in 2006. Higher oil prices were the main factor that prevented the subregion from achieving a higher growth rate, as all the countries of East Africa

[2] Subregional growth rates are calculated using individual country GDP as weights.

are oil importers. Economic performance remained robust in Ethiopia (8.5 per cent), Kenya (5.5 per cent), the United Republic of Tanzania (5.8 per cent), and Uganda (5.0 per cent) owing to higher commodity prices, especially for tea and coffee. Burundi, the Democratic Republic of the Congo and Rwanda achieved higher growth rates in 2006 (7.0, 5.8 and 4.2 per cent, respectively), thanks to growth in construction, trade and manufacturing, as economic activity benefited from the gradual restoration of peace in the region. The mining sector also contributed significantly to growth in the Democratic Republic of the Congo. Economic performance remained low in the Comoros (2.2 per cent), owing to low revenue from vanilla exports and a decline in the tourism sector, and in Eritrea (2.0 per cent), owing to low investment and other adverse effects of border conflicts. Seychelles recorded an improvement in economic performance (from –1.5 per cent in 2005 to 1.0 per cent in 2006) owing to a gradual recovery from the adverse effects of the tsunami of 2005 and the decline in tourism and tuna exports in the previous two years.

16. West Africa experienced the greatest decline in GDP growth in 2006 due to a decline in growth in Nigeria (from 6.0 per cent in 2005 to 4.2 per cent in 2006) as a result of social unrest in the Niger delta. Growth remained low in Côte d'Ivoire (1.2 per cent) owing to political instability, which disrupted agriculture and industry. Among non-oil economies, growth in Senegal (4.0 per cent), though still strong, slowed down because of weaker industrial performance as a consequence of high oil prices and the failure to renew Senegal's fishing accord with the EU.[3] Liberia sustained its strong post-conflict growth recovery. The Gambia achieved a 5.5 per cent growth rate in 2006 compared to 5 per cent in 2005, thanks to good rainfall and increased tourism activity. Growth in other countries in the subregion in 2006 was similar to that of 2005.

Figure 5
Subregional growth performance in 2004-2006



Source: Economist Intelligence Unit, 2007.

[3] Failure to renew Senegal's accord with the EU on fish exports, which ran from July 2002 to June 2006, restricts Senegalese fish exports to the EU and results in US$ 20.2 million loss in annual financial payments to Senegal (Economist Intelligence Unit, 2006a).

III. Sustainability of macroeconomic balances remains a concern over the medium-term

A. Oil as a key factor in fiscal balance improvement

17. Overall, Africa has continued to maintain a positive fiscal position, with the average budget balance (excluding grants) of 0.1 per cent of GDP in 2006 compared to 0.4 per cent in 2005 (table 1). For the 40 countries for which comparable data were available, there was a slight increase in the number of countries having budget deficits in 2006 relative to 2005 (from 27 to 30), owing to increases in oil prices resulting in higher government expenditures in oil-importing countries. Significant increases in public sector investment resulted in sizeable budget deficits in some oil-exporting countries: Angola (-5.0 per cent), Chad (-4.4 per cent), Egypt (-7.9 per cent) and Tunisia (-3.8 per cent).

18. With the exception of Sao Tome and Principe, all the countries that had budget surpluses in 2006 are oil exporters (Algeria, Cameroon, the Congo, Equatorial Guinea, Gabon, the Libyan Arab Jamahiriya and the Sudan). Therefore, oil continues to be the key factor behind the positive fiscal position for Africa as a whole. This raises concern over the sustainability of fiscal balance over the medium term for many oil-importing African countries.

19. Official development assistance (ODA) is a major source of budget support for many of these countries. The dependence of government budgets on oil revenue and external aid constitutes a source of vulnerability of fiscal balance and GDP growth in Africa. For oil producers, fiscal sustainability will require effective strategies for prudential management of oil revenues and strategies to utilize these revenues to enhance economic diversification. Non-oil-exporting African countries need to design mechanisms for increased mobilization and better management of revenue from domestic sources.

Table 1
Distribution of fiscal deficits in Africa, 2004-2006 (number of countries)

	2004		*2005*		*2006*	
	Oil producers	*Non-oil producers*	*Oil producers*	*Non-oil producers*	*Oil producers*	*Non-oil producers*
Countries with surpluses	**6**	**3**	**7**	**6**	**7**	**3**
Less than 5 per cent	2	2	1	4	2	3
5 per cent to 10 per cent	2	1	3	1	0	0
More than 10 per cent	2	0	3	1	5	0
Countries with deficits	**7**	**24**	**6**	**27**	**6**	**24**
Less than 5 per cent	5	18	5	15	5	13
5 per cent to 10 per cent	2	5	1	6	0	9
More than 10 per cent	0	1	0	0	1	2
Total number of countries	**13**	**27**	**13**	**33**	**13**	**27**

Source: Economist Intelligence Unit, 2006b.

B. Pressure from oil prices threatens price stability

20. For the second year, average consumer price inflation increased in Africa (from 8.5 per cent in 2005 to 9.9 per cent in 2006). Inflationary pressure has resulted mainly from higher oil prices and the subsequent increase in production costs and lower output. In most countries, food prices rose significantly, owing to higher transportation costs. While inflation remained contained and low in most of the 53 African countries with available data, the risk of higher inflation remains a concern should higher oil prices persist in the near future.

21. Despite the increase in the average rate of inflation, the situation has improved in 2006 relative to 2005 with more countries having inflation rates of less than 5 per cent, and fewer countries having two-digit inflation (table 2). However, a few countries experienced drastic increases in inflation. In Zimbabwe, inflation increased to 1,216 per cent in 2006 compared to 237.8 per cent in 2005, owing to inflationary finance of the budget deficit and shortage of food, especially maize. In Guinea, the country with the second highest inflation rate in Africa, inflation remained high (27 per cent in 2006 compared to 31.4 per cent in 2005), owing to the effects of high oil prices and imported inflation arising from high imports of consumer goods.

Table 2
Distribution of inflation rates in Africa, 2004-2006 (number of countries)

Range	*2004*	*2005*	*2006*
Less than 5 per cent	30	21	25
Between 5 and 10 per cent (10 per cent excluded)	6	14	15
Between 10 and 20 per cent (20 per cent excluded)	13	13	10
20 per cent and higher	3	4	2
Total number of countries	**52**	**52**	**52**

Source: International Monetary Fund, 2006.

IV. External balances also driven by developments in the resource sector

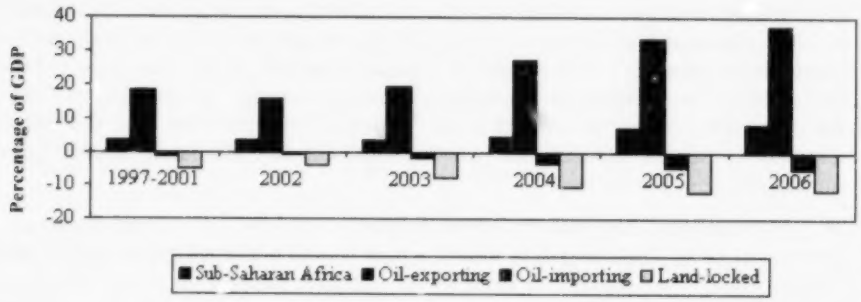
A. Developments in the balance of payments

22. For the third consecutive year, Africa achieved a positive and increasing current account surplus (from 2.3 per cent of GDP in 2005 to 3.6 per cent in 2006, i.e. from US$ 18.4 billion to US$ 33.1 billion), thanks to higher commodity export revenue, especially from oil. Africa's average balance of payments position largely reflects developments in resource-rich countries. With the exception of the Sudan, all oil-exporting countries had current account surpluses, while only two non-oil economies (Morocco and Namibia) had current account surpluses. Namibia is a mineral-rich country and Morocco has a diversified export sector and significant mineral wealth. Additionally, workers' remittances and tourism receipts are important in explaining current account surpluses in Morocco in recent years (Bank

Al-Maghrib, 2005). Eighteen of the 39 non-oil economies with adequate data experienced deterioration in the current account position in 2006, up from 11 economies in 2005.

23. Oil-exporting countries have recorded increasing trade surpluses, while their oil-importing counterparts experienced deepening trade deficits (figure 6). The trade surplus for oil exporters as a group more than doubled from 2002 to 2006 (from 16 per cent of GDP to 37 per cent) while oil importers as a group saw their trade deficit deteriorate from –4 per cent of GDP to –11 per cent of GDP over the same period. Deterioration of the trade deficit was even more pronounced for landlocked countries. The continuing rise in oil prices raises serious concerns about the sustainability of the current account among oil importers and the associated effects on overall economic performance and macroeconomic stability.

Figure 6
Trade balance in Africa by category (percentage of GDP), 1997-2006



Source: International Monetary Fund, 2006.

B. Exchange rates and the impact of commodity booms

24. In 2006, 35 African currencies appreciated against the United States dollar, although the rates of appreciation remained moderate (less than 5 per cent). The Zambian kwacha continued to record the highest rate of appreciation (23 per cent) for the second year in a row because of the high copper price and growing investor confidence, especially after the country's qualification for debt relief (ECA, 2006b). Large volumes of speculative capital inflows, targeting government securities, have also played a significant role in the appreciation of the Zambian kwacha.

25. Exchange rate appreciation was also notable for the Sudanese dinar (12.5 per cent) and the Angolan kwanza (8.5 per cent) owing to higher oil revenues and FDI flows. Conversely, the Zimbabwean dollar had the largest depreciation (87 per cent), followed by the Malawian kwacha (13 per cent). Zimbabwe and Malawi experienced a decline in exports and increased food imports because of slow recovery from the drought of 2005, while Guinea faced a near-depletion of foreign reserves.

26. Many African countries have accumulated substantial foreign currency reserves in recent years with the desire to hedge against external shocks. However,

excessive foreign exchange reserves hoarding takes away resources that would otherwise be used to boost domestic economic activity. A better approach is to adopt a comprehensive strategy for prudential regulation and capital controls that can minimize exchange risks while allowing the country to benefit from increased export revenue and FDI inflows. The types of controls to implement should be country-specific (Pollin and others, 2006). Interventions will have to rely on a set of indicators for early-warning systems that monitor movements in foreign exchange, the exchange rate, the structure of external debt and other financial risk indicators. The ultimate goal is to allow African countries to utilize these resources to increase private and public investment so as to accelerate growth.

C. External debt remains high and private capital flows insufficient

27. The hope that Africa's external debt will be significantly reduced under the Heavily Indebted Poor Countries (HIPC) Initiative and that economic reforms will stimulate private capital inflows has been very slow to materialize. Africa's total external debt stock stood at US$ 244 billion in 2006 compared with US$ 289 billion in 2005 (International Monetary Fund, 2006). Although the debt stock declined considerably relative to GDP (from 35.9 per cent in 2005 to 26.2 per cent in 2006), total debt service obligations remained almost unchanged (4.2 per cent of GDP in 2005 and 4.1 per cent in 2006) because of higher interest rates. The debt burden seriously constrains spending on public investment and ultimately retards growth and employment generation.

28. The continent has benefited from substantial inflows of external financing in the form of ODA (including debt relief), which should boost economic growth in the coming years. The Multilateral Debt Relief Initiative announced at the G-8 summit in Gleneagles, Scotland in 2005 provided much needed relief for 13 sub-Saharan African countries. However, it is clear that this debt relief package is not enough and that more external funding will be needed, especially in view of the fact that Africa's gross domestic savings rate (19.7 per cent of GDP) in 1998-2006 is far lower than that during the pre-reform era, 1974-1985 (24.5 per cent) (table 3). Moreover, Africa's gross domestic investment rate (25.4 per cent) in 1998-2006 remains lower than the level (34.2 per cent) considered necessary for halving poverty by 2015 (ECA, 1999). The low level and poor quality of investment contribute to the inability of most African countries to achieve and sustain high growth rates over the medium-term (Berthelemy and Soderling, 2001).

Table 3
External flows, domestic savings and investment during 1998-2006

Indicator	*Oil economies*	*Non-oil economies*	*Africa*	*Source*
ODA (Billions of US dollars, average annual)	4.5	14.4	18.9	World Development Indicators (WDI) 2006
FDI (Billions of US dollars)	7.3	5.9	14.0	UNCTAD, *World Investment Report 2006*
Remittances (US$ billion)	7.6	5.2	12.8	WDI 2006
Other private flows			-6.1	IMF World Economic Outlook Database
Gross domestic investment (% of GDP)	22.1[a]	18.4[b]	20.2[c]	WDI 2006
Gross domestic savings (% of GDP)	24.2[d]	15.1[e]	19.7[f]	WDI 2006

Notes: FDI is for 1998-2005; other private flows are for 1998-2006; for the remaining indicators the data are for 1998-2004. Owing to data unavailability, the following countries have been excluded: (a) Equatorial Guinea and the Libyan Arab Jamahiriya; (b) Djibouti, Lesotho, Liberia and Somalia; (c) Equatorial Guinea and the Libyan Arab Jamahiriya, Djibouti, Liberia, Lesotho, and Somalia; (d) Equatorial Guinea, and the Libyan Arab Jamahiriya; (e) Djibouti, Liberia, and Somalia; (f) Equatorial Guinea, Djibouti, Liberia, the Libyan Arab Jamahiriya and Somalia.

V. Social development

29. The present section of the overview assesses recent progress on social development in Africa against the backdrop of recent sustained improvements in economic performance across a large swathe of countries in the region. It focuses on non-Millennium Development Goals social development indicators, since the Millennium Development Goals are covered in another document. The key message of the present report is that improvements in social development lag significantly behind improvements in economic performance. Thus far, economic growth has not translated into improvements in social development. One reason for this is the fact that social indicators change rather slowly. Another reason could be the dearth of data on human development indicators across the region.

30. Furthermore, African countries are making progress in reducing or slowing the spread of HIV/AIDS, and access to treatment for people living with HIV/AIDS is improving. However, the prevalence rate remains high relative to other regions of the world. It is also apparent that social exclusion is rising in Africa and that the rising crime rate, especially in some of Africa's leading economies (Kenya and South Africa), is a direct consequence of this factor. Overall, countries are intensifying their interventions to improve social development indicators across the continent. A number have demonstrated their commitment in this direction by creating special dedicated ministries of social development.

A. Social exclusion

31. Recent economic growth in Africa has not been broad-based. A significant proportion of the population of African countries has not benefited from higher growth rates, which has resulted in alienation and exclusion. Although we do not have data on the extent of exclusion in Africa, we can use the unemployed as a significant group.

32. Exclusion has three principal dimensions: economic, social, and political. The economic dimension is a direct product of poverty and the excluded find themselves entirely eliminated from the labour market and thus deprived of a regular income. In addition, their access to assets such as land and credit is limited. The social dimension of exclusion further restricts access to infrastructure, services such as education and health, and social security, as well as community and family support. Political exclusion implies that certain categories of the population, such as women, ethnic and religious minorities, or migrants, have no voice and therefore do not participate in the decision-making process, leaving the poor with no opportunity to change the course of events.

33. Poverty is one of the factors contributing to exclusion but does not necessarily bring it about. Several factors, including the HIV/AIDS pandemic, globalization, drought and conflicts in a number of African countries, also contribute to the phenomenon of exclusion.

B. Progress on gender remains slow

34. The Beijing Platform for Action drew international attention on the feminization of poverty and stressed that the eradication of poverty could not be accomplished without democratic participation and changes in economic structures in order to ensure access for all women to resources, opportunities and public services. The Platform for Action advocated for the adoption of macroeconomic policies and development strategies that addressed the needs and efforts of women, and the revision of laws and practices to ensure women's equal rights and access to economic resources. However, 12 years on, poverty still disproportionately affects women in the majority of African countries.

35. According to the ECA African Gender and Development Index (AGDI), there are significant income differentials and disparities in terms of access to and control over productive assets, such as land and credit.[4] The average gender parity index for the three indicators used to assess inequalities in access to resources (ownership of rural/urban plots/houses or land, access to credit and freedom to dispose of own income) shows that women's access to resources is only half that of men. The index further highlights the fact that women continue to face a higher work burden in the household and care economy, limiting further their ability to fully participate in and benefit from development processes.

36. In addition to the Beijing Platform for Action, African countries have strengthened their commitment to the Convention on the Elimination of All Forms of Discrimination Against Women. So far, 51 out of 53 countries have ratified the

[4] The AGDI is a composite index developed by ECA to measure gender inequality in the social, economic and political spheres.

Convention. However, by June 2006, only 12 African countries had ratified the Optional Protocol to the Convention, which provides a mechanism for reporting State violations. Furthermore, measures taken by the Convention Committee to address the concerns raised are not binding.

37. Within the framework of AGDI field studies in 12 countries, the ratification and effective implementation of the Convention by member States were scored across a range of qualitative indicators including but not limited to ratification, policy commitment, targets, budget and human resources. The studies revealed that all 12 AGDI-surveyed countries have put in place policy initiatives to mainstream gender into all sectors of development. Two countries have even gone further to set quantifiable targets to assess progress made. This portrays an encouraging picture, indicating that Africa is striving towards gender equality. However, real implementation of women's human rights provisions requires adequate resources. National resource allocations to address the Convention remain nevertheless too low.

38. Women's access to land remains poor. With about 70 per cent of all Africans earning their livelihood from agriculture, falling agricultural productivity means the exacerbation of poverty levels and food insecurity. One of the serious constraints to increased productivity is the land tenure system and exclusion of certain groups and categories from access to land. As access in most of rural Africa continues to be determined by indigenous/communal systems of land tenure, women's equal rights to land are too often neglected.

C. Migration and development

39. Migration has been an issue of serious debate in the international sphere in recent times. In 2006, the United Nations held the High-level Dialogue on Migration and Development to discuss the challenges and opportunities of international migration.

40. In Africa, migration flows display a wide range of patterns, modulated by strategies to cope with factors such as economic and ecological problems, intraregional disparities in economic well-being, political instability and restrictive migration policies. African international migration involves a wide range of voluntary and forced cross-border movements within the continent, as well as regular and irregular migration to destinations outside the continent. Migration streams within Africa are much larger than those out of Africa, and forced migration plays a significant part. African nations, already struggling to provide for their own populations, were harbouring about one third (three million) of the world's refugees at the end of 2005.

41. Conflicts have effectively resulted in increased numbers of internally displaced people and refugees in Africa (table 4). Internally displaced people and refugees experience many forms of social exclusion, particularly women and children. This social group also faces a higher rate of exclusion from education and health services, which is further exacerbated by their unclear legal status.

Table 4
Internally displaced people and refugees in selected African countries, 2005

Country	*Internally displaced people (thousands)*	*Refugees by country of origin (thousands)*
Sudan	5 355	693
Uganda	1 740	38
Zimbabwe	570	11
Kenya	382	5
Eritrea	64	144
Côte d'Ivoire	800	18
Democratic Republic of the Congo	1 664	431
Burundi	117	439
Angola	82	216

Source: United Nations, A/60/871.

42. International migration impinges on development in Africa in a wide range of ways. A key challenge for African countries with serious human resource shortages is skills migration or "brain drain". Particularly difficult is migration in the case of the health sector. As Africa is facing increasing demand as a result of HIV/AIDS and other diseases, several countries also experience a net depletion of their health workforce. For example, 926 Ghanaian doctors practise in the Organization for Economic Cooperation and Development (OECD) countries alone, representing 29 per cent of the doctors still practising in Ghana (A/60/871).

43. There are, however, also benefits from migration. Africans in the diaspora transfer resources across time and space that are then used to reduce poverty and enhance economic development. In 2004, remittances to Africa amounted to US$ 14 billion, with Egypt, Morocco and Nigeria being the largest recipients. Migrants are also transferring investment and venture capital, skills and new technologies to their countries of origin. Much of the remittances are used for consumption, health care and schooling, but a substantial proportion is used for housing and investment. The challenge in this regard is for countries to design policies that help reduce the transaction costs of remittances.

D. Ageing population

44. Although only 5.2 per cent of the total population is aged 60 or over, ageing is becoming a growing challenge for the region (United Nations, E/CN.5/2007/7). This means that the coming decades will see a rapidly increasing percentage of the population over the age of 60. In 2000, 4.6 per cent of the total population were aged 60 years or over. In 2050, the United Nations predicts that this figure will increase to about 8.1 per cent of the total population. This trend will have major impacts on the economic and social well-being of the elderly in Africa.

45. Even if it is expected that Africa's elderly population will be better educated compared to previous generations, there is no guarantee that this older generation will experience more prosperous and healthier lives in old age. They will be

threatened by poverty because of the lack of old-age pension schemes in many countries, as well as by the HIV/AIDS epidemic which has turned many of them into parents again. Poverty is also going to be a major threat among older women, especially those living alone in both rural and urban areas. Finally, the effects of ageing on health-care costs are likely to be considerable given that elderly people, in general, consume more health care.

E. Employment and youth

46. Africa's official unemployment rate persists at 10 per cent. However, when comparisons are made on a subregional basis, Southern Africa had the highest unemployment rate, 31.6 per cent, while East Africa had 11 per cent, Central Africa had 9.4 per cent, North Africa had 10.4 per cent and West Africa had the lowest rate, 6.7 per cent (ECA, 2005). Unemployment has been found to be high among some disadvantaged groups, including women, the youth, people with disabilities, people living with HIV/AIDS, cross-border migrants and the elderly (ECA, 2006b). For example, the national unemployment rate for South Africa was 26.7 per cent in 2005, while the unemployment rate among black Africans was the highest, at 31.5 per cent, compared to 22.4 per cent among coloured people, 15.8 per cent among Indians/Asians and 5.1 per cent among white people. Furthermore, across much of Africa, finding productive and decent work is a major challenge for Africa's youth. In fact, the ratio of youth to adult unemployment was 3.6 in 1993 and remained virtually unchanged at 3.5 in 2003 (International Labour Office, 2004). Youth find themselves at the end of the job queue for the formal labour market because they do not have any work experience, and they often do not possess efficient social networks. This means they will be virtually excluded from reasonably paying formal employment, forced either into atypical or vulnerable forms of formal employment with low pay or the informal sector with limited legal protection. The situation is much worse among young women, who continue to face numerous barriers in the labour market.

F. Orphans and vulnerable children

47. Orphans and vulnerable children constitute one of the groups most vulnerable to social exclusion in Africa today. This group is largely a result of the AIDS pandemic, as well as displacement caused by civil conflict, wars, drought and floods. The total number of orphans due to AIDS reported in Africa at the end of 2005 was about 12 million, representing a very large proportion of the 0-17 year age group (Joint United Nations Programme on HIV/AIDS, 2006). One of the main consequences of orphanhood is limited access to education. Traditionally, in Africa the extended family and the community at large were responsible for assisting orphans socially, economically, psychologically and emotionally. However, extended family systems are now under stress due to mounting needs as a result of high mortality among adults of reproductive age and deepening poverty, and are thus failing to secure education for all orphans in need. Furthermore, although conventions on the rights of the child have been ratified by a large proportion of African States, their conversion into policies lags behind, with child labour and prostitution still observable in many parts of the continent. In addition, child labour is a major problem in Africa, particularly in the agricultural and informal service

sectors. It is estimated that 49.3 million children in sub-Saharan Africa are involved in the labour force (International Labour Office, 2006). Children are forced into the labour force or indentureship by their families in order to help alleviate the immediate impact of extreme poverty and hunger.

48. The social consequences of orphaned and vulnerable children are great. By not receiving an education today, orphans risk exclusion in the future. Children orphaned or made vulnerable by HIV/AIDS not only are at greater risk of missing out on an education, but they may also face stigmatization and neglect in their communities. Trafficking and commercial sexual exploitation are yet another consequence of the lack of protection facing these children. The magnitude of both child trafficking and commercial sexual exploitation in Africa cannot be accurately quantified because of lack of data, but it has been estimated that 50,000 children are in prostitution and pornography (ILO, 2006). Children involved in commercial sex activities are often subjected to rape, physical and psychological abuse and starvation. Incidences of unwanted pregnancies and sexually transmitted infections, including HIV/AIDS, are also high among these children.

G. Crime

49. Crime has become a serious social and economic problem in many African countries. A consequence of unemployment and urbanization, it is now a major cause of death in the region. The death rate attributable to violence in Africa is estimated at 60.9 per 100,000 population. This is over twice the global rate and substantially higher than for other regions (World Health Organization Regional Office for Africa, 2004). In addition, the more vulnerable groups account for a disproportionate part in the official statistics. Indeed, Gun Free South Africa, an advocacy group, has stated that 12 per cent of gun death victims in 1998 were young women, and about 7 per cent of the victims were under the age of 17 (Fleshman, 2001). According to the Nairobi Youth and Crime Survey, young offenders and ex-offenders interviewed said that the major offences they had been arrested for were theft, followed by assault and drug possession (United Nations Human Settlements Programme, 2002). In addition, political instability and conflict are often the outcome of social exclusion, and the more vulnerable suffer the brunt of this phenomenon, which is underpinned by the 100 million illicit small arms in Africa. For example, children recruited as soldiers are denied education and protection and are often unable to access essential health-care services, while those who are displaced, refugees or separated from their families face similar deprivations. Conflict heightens the risk of children being exposed to abuse, violence and exploitation, with sexual violence often employed as a weapon of war.

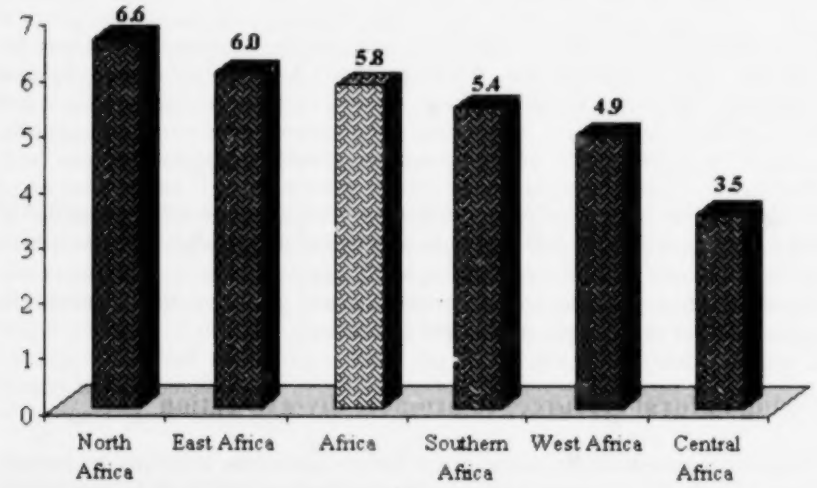
VI. Growth prospects for 2007 and medium-term outlook

50. Africa is expected to grow at a rate of 5.8 per cent in 2007, slightly higher than the rate of 5.7 per cent recorded in 2006 (figure 7). Positive growth rates are projected for all subregions: North Africa (6.6 per cent), East Africa (6.0 per cent), Southern Africa (5.4 per cent), West Africa (4.9 per cent) and Central Africa (3.5 per cent). Despite deceleration of growth in major industrial economies, global demand for African products, especially oil, minerals and agricultural commodities, is

expected to remain steady owing to strong growth in emerging Asian economies, especially China. Moreover, delivery of the promised aid and debt relief will allow African countries to boost expenditure in key sectors, including infrastructure and social services. Consolidation of macroeconomic management will not only reduce inflation in the short run, but also contain long-term inflation expectations, which will encourage private investment.

51. A number of factors are likely to hinder growth in 2007 and subsequent years. Economic growth in many countries will be compromised by the increasing spread of the HIV/AIDS pandemic, which undermines labour supply and labour productivity. Lack of diversification of production and exports constitutes an important source of potential instability and vulnerability to shocks emanating from changes in commodity demand and prices, as well as unpredictable weather changes. Inefficient public infrastructure and unreliable energy supply at the national level, as well as poor integration of transportation and energy networks at the regional level, will continue to undermine productivity and international competitiveness, ultimately slowing economic growth (ECA, 2006c).

Figure 7
Projected real GDP growth by region for 2007 (percentage)



Source: Economist Intelligence Unit, 2007.

VII. Conclusion and policy recommendations

52. Despite notable economic recovery in Africa since the turn of the twenty-first century, the continent still faces important challenges in attaining its development goals. Being highly commodity-dependent, growth remains volatile and too low for achieving the Millennium Development Goals while pressure from oil prices threatens price stability in oil-importing countries. Macroeconomic balances are driven by developments in the resource sector and may worsen for oil-importing African countries if high oil prices persist in the medium term. Moreover, external

debt remains high and private capital flows insufficient to bridge the gap between domestic savings and the necessary investment for Africa to meet the Millennium Development Goals. Furthermore, the continent needs to design and implement integrated policy measures in order to address key challenges in the domain of social development.

A. Promoting international competitiveness

53. While the medium-term outlook for the world economy remains upbeat and global imbalances have started to stabilize, for African countries there remain some risks arising from competition from Asia and the weakening of housing markets in advanced economies, which could reduce demand and weaken commodity prices. Thus, African countries need to introduce effective measures to promote international competitiveness through increased productivity and diversification of production and exports. At the same time, they need to increase domestic demand and promote regional integration and intra-Africa trade.

B. Policies to improve macroeconomic management and promote high and sustainable growth

54. The majority of African countries have been unable to achieve and sustain the high growth rates necessary for achieving their development goals. Besides sustaining macroeconomic stability, African countries need to tailor their fiscal and monetary policies to promote investment, employment generation and growth. Moreover, it is necessary to adopt innovative growth strategies that can help Governments to identify binding constraints to growth as well as the sources of growth potential at a disaggregated level, and design incentive mechanisms to channel resources to sectors with the highest potential for growth and employment generation. This calls for an innovative diagnostic approach to growth strategies that can effectively address country-specific constraints and identify policy interventions based on country-specific opportunities and objectives.

C. Managing natural resources to promote diversification

55. Economic growth in the majority of African countries is driven by natural resources, namely oil, minerals and agricultural commodities, such as tea, coffee and cocoa. Commodity dependence exposes African economies to shocks emanating from natural factors and fluctuations in demand and commodity prices. To achieve high and sustainable growth, African countries need to use revenues from commodity exports to promote economic diversification.

D. Trade and sectoral policies for diversification

56. In addition to prudential macroeconomic management and the strengthening of institutions, promoting economic diversification requires effective sectoral policies and microeconomic reforms that spur industrialization. This calls for better coordination between sectoral and trade policies with macroeconomic policies. African countries should use trade policies in a strategic way, with a focus on

diversification of products and markets. This will necessitate strategies that are targeted to those sectors that are most closely aligned to the overall industrialization strategy.

E. Investing in energy and public infrastructure

57. Investing in public infrastructure and energy supply is crucial for promoting private investment, accelerating diversification and increasing access to social services for the majority of the population. Oil-importing African countries in particular need to reduce their dependence on oil by making use of alternative sources of energy, especially hydropower, and by utilizing cost-effective technologies.

F. Designing pro-poor growth policies

58. In addition to developing innovative and employment-generating growth strategies, African countries need to become more innovative in terms of resource mobilization and in the design of pro-poor growth policies in order to tackle the problems of mass unemployment, poverty alleviation and pervasive inequality. Well-targeted social development interventions in the areas of education and health are also critical for promoting shared growth and reducing poverty. These policies should also address youth unemployment by equipping the youth with adequate skills for the labour market and by creating job centres with specific youth programmes.

G. Mainstreaming employment, gender equality and social protection into national development plans and poverty reduction strategies

59. Development planning and poverty reduction strategies are important and widely recognized instruments whereby national policymakers can improve social conditions for their populations. They should, therefore, be used to tackle issues such as high unemployment in African countries, acute gender inequalities and lack of adequate social safety nets.

H. Fighting HIV/AIDS and other pandemics

60. The continent faces the challenge of the expanding HIV/AIDS pandemic. Decreasing costs of treatment and the emergence of simpler treatment regimes provide an opportunity to scale up national HIV/AIDS treatment and care responses besides prevention. This will help to reduce both the direct and indirect costs of HIV/AIDS over the long run. Africa also needs to scale up resources to combat other diseases such as malaria and tuberculosis.

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